

UNITED STATES OF AMERICA  
BEFORE THE  
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, D.C.

Written Agreement by and among

PROFINIUM FINANCIAL HOLDINGS, INC.  
Fairmont, Minnesota

PROFINIUM FINANCIAL, INC.  
Truman, Minnesota

and

FEDERAL RESERVE BANK OF MINNEAPOLIS  
Minneapolis, Minnesota

Docket Nos. 09-064-WA/RB-HC  
09-064-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of Profinium Financial Holdings, Inc., Fairmont, Minnesota (“PFHI”), a registered bank holding company, and its subsidiary bank, Profinium Financial, Inc., Truman, Minnesota (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, PFHI, the Bank, and the Federal Reserve Bank of Minneapolis (the “Reserve Bank”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on July 9, 2009, the boards of directors of PFHI and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing Fred C. Krahmer, Chairman of the Bank and President of PFHI, to enter into this Agreement on behalf of PFHI and the Bank, and consenting to compliance with each and every applicable provision of this Agreement by PFHI, the Bank, and their institution-affiliated parties, as defined in

Sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act as amended (the “FDI Act”) (12 U.S.C. §§ 1813(u) and 1818(b)(3)).

NOW, THEREFORE, PFHI, the Bank, and the Reserve Bank agree as follows:

### **Board Oversight**

1. Within 90 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank a written plan to strengthen board oversight of the management and operations of the Bank. The plan shall, at a minimum, address, consider, and include:

(a) The actions that the board of directors will take to improve the Bank’s condition and maintain effective control over, and supervision of, the management of the Bank’s major operations and activities, including but not limited to, credit risk management, credit administration, processes to mitigate risks associated with credit concentrations, earnings, capital, and liquidity/funds management; and

(b) a description of the information and reports that will be regularly reviewed by the board of directors in its oversight of the operations and management of the Bank, including information on the Bank’s credit concentrations, adversely classified assets, allowance for loan and lease losses (“ALLL”), capital, earnings, and liquidity.

### **Credit Risk Management**

2. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan to strengthen credit risk management practices. The plan shall, at a minimum, address, consider, and include:

(a) Procedures to periodically review and revise individual and portfolio risk exposure limits to address changes in market conditions and strategies to minimize credit losses;

(b) procedures and controls to identify, quantify, monitor, limit, and manage concentrations of credit that are consistent with the Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices, dated December 12, 2006 (SR 07-1); and

(c) enhancements to the internal loan grading system to timely identify individual problem credits.

### **Loan Policies and Procedures**

3. Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank acceptable revised written loan policies and procedures for all loans and participations. The policies and procedures shall, at a minimum, address, consider, and include:

(a) Requirements for a written cash flow analysis of the borrower and any guarantor at loan origination, and the conditions under which updated financial information and periodic credit analysis are required;

(b) criteria and standards for underwriting, administering, and monitoring, participation loans, and maintaining records of such activities;

(c) aggregate limits for: (i) loans purchased from any one source; (ii) all loans purchased; (iii) loans out of the Bank's defined market area; and (iv) loans to particular types of industries;

(d) standards for acceptable loan to value ratios;

(e) standards for renewing, extending, or modifying existing loans;

(f) requirements for obtaining and reviewing real estate appraisals; and

(g) the administration of other real estate owned ("OREO").

## **Loan Review**

4. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written program to enhance the loan review function. The program shall, at a minimum, address, consider, and include:

- (a) The scope and frequency of loan review;
- (b) standards and criteria for assessing the credit quality of loans;
- (c) application of loan grading standards and criteria to the loan portfolio; and
- (d) written reports to the board of directors, at least quarterly, that identify and report the status of those loans that are nonperforming or adversely graded, the originator of any purchased loan, and the prospects for full collection or strengthening of the quality of any such loans.

## **Asset Improvement**

5. (a) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, who is obligated to the Bank in any manner on any extension of credit or portion thereof that has been charged off by the Bank or classified, in whole or in part, “loss” in the report of examination conducted by the Reserve Bank that commenced on October 14, 2008 (“Report of Examination”) or in any subsequent report of examination, as long as such credit remains uncollected.

(b) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, whose extension of credit has been classified “doubtful” or “substandard” in the Report of Examination or in any subsequent report of examination, without the prior approval of the board of directors. The board of directors shall document in writing the reasons for the extension of credit or renewal,

specifically certifying that: (i) the extension of credit is necessary to protect the Bank's interest in the ultimate collection of the credit already granted or (ii) the extension of credit is in full compliance with the Bank's written loan policy, is adequately secured, and a thorough credit analysis has been performed indicating that the extension or renewal is reasonable and justified, all necessary loan documentation has been properly and accurately prepared and filed, the extension of credit will not impair the Bank's interest in obtaining repayment of the already outstanding credit, and the board of directors reasonably believes that the extension of credit or renewal will be repaid according to its terms. The written certification shall be made a part of the minutes of the board of directors meetings, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in a borrower's credit file for subsequent supervisory review. For purposes of this Agreement, the term "related interest" is defined as set forth in section 215.2(n) of Regulation O of the Board of Governors of the Federal Reserve System (the "Board of Governors")(12 C.F.R. § 215.2(n)).

6. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral, or other means on each loan or other asset in excess of \$500,000, including OREO, that (i) is past due as to principal or interest more than 90 days as of the date of this Agreement; (ii) is on the Bank's problem loan list; or (iii) was adversely classified in the Report of Examination.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$500,000, including OREO, becomes past due as to principal or interest for more than 90 days, is on the Bank's problem loan list, or is adversely classified in any subsequent report of

examination of the Bank, the Bank shall submit to the Reserve Bank an acceptable written plan to improve the Bank's position on such loan or asset.

(c) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank to update each asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset and changes in the nature and value of supporting collateral, along with a copy of the Bank's current problem loan list, extension report, and past due/non-accrual report. The board of directors shall review the progress reports before submission to the Reserve Bank and shall document the review in the minutes of the board of directors' meetings.

#### **Allowance for Loan and Lease Losses**

7. (a) The Bank shall, within 30 days from the receipt of any federal or state report of examination, charge off all assets classified "loss" unless otherwise approved in writing by the Reserve Bank.

(b) Within 60 days of this Agreement, the Bank shall review and revise its ALLL methodology consistent with relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 (SR 01-17 (Sup)) and December 13, 2006 (SR 06-17), and the findings and recommendations regarding the ALLL set forth in the Report of Examination, and submit a description of the revised methodology to the Reserve Bank. The revised ALLL methodology shall be designed to maintain an adequate ALLL and shall address, consider, and include, at a minimum, the reliability of the Bank's loan grading system, the volume of criticized loans, concentrations of credit, the current level of past due and nonperforming loans, past loan loss experience, evaluation of probable losses

in the Bank's loan portfolio, including adversely classified loans, and the impact of market conditions on loan and collateral valuations and collectibility.

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written program for the maintenance of an adequate ALLL. The program shall include policies and procedures to ensure adherence to the revised ALLL methodology and provide for periodic reviews and updates to the ALLL methodology, as appropriate. The program shall also provide for a review of the ALLL by the board of directors on at least a quarterly calendar basis. Any deficiency found in the ALLL shall be remedied in the calendar quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions. The board of directors shall maintain written documentation of its review, including the factors considered and conclusions reached by the Bank in determining the adequacy of the ALLL. During the term of this Agreement, the Bank shall submit to the Reserve Bank, within 30 days after the end of each calendar quarter, a written report regarding the board of directors' quarterly review of the ALLL and a description of any changes to the methodology used in determining the amount of ALLL for that quarter.

### **Capital Plan**

8. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include the Bank's current and future capital requirements, including:

(a) Compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);

(b) the volume of adversely classified assets;

- (c) the adequacy of the loan loss reserve;
- (d) any planned asset growth;
- (e) the anticipated level of retained earnings;
- (f) anticipated and contingent liquidity needs; and
- (g) the source and timing of additional funds to fulfill the future capital and

loan loss reserve needs of the Bank.

9. The Bank shall notify the Reserve Bank, in writing, no more than 30 days after the end of any calendar quarter in which any of the Bank's capital ratios (total risk-based, Tier 1, or leverage) fall below the plan's minimum ratios. Together with the notification, the Bank shall submit an acceptable capital plan that details the steps that PFHI and the Bank will take to increase the Bank's capital ratios to or above the plan's minimums.

10. The board of directors shall monitor and review the sufficiency of the Bank's capital on a monthly basis and shall reflect such reviews in the minutes of the board of directors' meetings.

### **Strategic Plan and Budget**

11. (a) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank a strategic plan to improve the Bank's earnings, and a budget for 2009. The written plan and budget shall include, but not be limited to:

(i) Identification of the major areas where, and means by which, the board of directors will seek to improve the Bank's operating performance;

(ii) a realistic and comprehensive budget for calendar year 2009, including income statement and balance sheet projections; and



(iii) a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components.

(b) A strategic plan and budget for each calendar year subsequent to 2009 shall be submitted to the Reserve Bank at least 30 days prior to the beginning of that calendar year.

### **Liquidity/Funds Management**

12. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan designed to improve management of the Bank's liquidity position and funds management practices. The plan shall, at a minimum, address, consider, and include:

- (a) Specific liquidity targets to meet contractual obligations and unanticipated demands;
- (b) identification of additional sources of liquidity;
- (c) a timetable to reduce reliance on short-term wholesale funding, including brokered deposits; and
- (d) measures to enhance the monitoring, measurement, and reporting of the Bank's liquidity to the board of directors.

13. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable revised written contingency funding plan that, at a minimum, identifies available sources of liquidity and includes adverse scenario planning.

### **Dividends**

14. (a) PFHI and the Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director of the Division of Banking Supervision and Regulation of the Board of Governors (the "Director").

(b) PFHI shall not take any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank.

(c) PFHI and its nonbank subsidiary shall not make any distributions of interest, principal, or other sums on subordinated debentures, any debt to Insiders, or trust preferred securities without the prior written approval of the Reserve Bank and the Director. For the purpose of this paragraph “Insider” shall be defined as any of PFHI’s or the Bank’s current or former executive officers, directors, principal shareholders, their immediate family members, an employee or officer of their related interests, or persons acting on their behalf.

(d) All requests for prior approval shall be received at least 30 days prior to the proposed dividend declaration date, proposed distribution on subordinated debentures, and required notice of deferral on trust preferred securities. All requests shall contain, at a minimum, current and projected information, as appropriate, on PFHI’s capital, earnings, and cash flow; the Bank’s capital, asset quality, earnings and ALLL needs; and identification of the sources of funds for the proposed payment or distribution. PFHI and the Bank, as appropriate, must also demonstrate that the requested declaration or payment of dividends is consistent with the Board of Governors’ Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323).

### **Debt and Stock Redemption**

15. (a) PFHI shall not, directly or indirectly, incur, increase, or guarantee any debt without the prior written approval of the Reserve Bank. Notwithstanding the foregoing, PFHI may incur, increase or guarantee debt, provided the proceeds are used to increase Bank capital, and provided PFHI provides the Reserve Bank not less than 30 days’ prior written notice

before taking such action. All requests for prior written approval and all written notices under this paragraph shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

(b) PFHI shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

### **Compliance with Laws and Regulations**

16. In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, the Bank shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. § 1831i) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. §§ 225.71 *et seq.*).

17. The Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. Part 359).

### **Compliance with the Agreement**

18. Within 30 days after the end of each calendar quarter following the date of this Agreement, the Bank shall submit to the Reserve Bank written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof.

## **Approval and Implementation of Plans, Policies, Procedures, and Programs**

19. (a) The Bank and, as applicable, PFHI shall submit written plans, policies, procedures, and programs that are acceptable to the Reserve Bank within the applicable time periods set forth in paragraphs 2, 3, 4, 6, 7(c), 8, 9, 12 and 13 of this Agreement.

(b) Within 10 days of approval by the Reserve Bank the Bank and, as applicable, PFHI shall adopt the approved plans, policies, procedures, and programs. Upon adoption, the Bank and, as applicable, PFHI shall promptly implement the approved plans, policies, procedures, and programs, and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans, policies, procedures, and programs shall not be amended or rescinded without the prior written approval of the Reserve Bank.

## **Communications**

20. All communications regarding this Agreement shall be sent to:

- (a) Ms. Diann Townsend  
Division of Supervision, Regulation and Credit  
Federal Reserve Bank of Minneapolis  
90 Hennepin Avenue  
Minneapolis, Minnesota 55401-1804
- (b) Mr. Fred W. Krahmer  
Vice President  
Profinium Financial Holdings, Inc.  
204 Lake Avenue  
Suite 201  
Fairmont, Minnesota 56031
- (c) Mr. Marques Doppler  
Chief Executive Officer  
Profinium Financial, Inc.  
P.O. Box 848  
105 Lake Avenue  
Fairmont, Minnesota 56031-1812

**Miscellaneous**

21. Notwithstanding any provision of this Agreement, the Reserve Bank may, in its sole discretion, grant written extensions of time to PFHI and the Bank to comply with any provision of this Agreement.

22. The provisions of this Agreement shall be binding upon PFHI, the Bank, and their institution-affiliated parties, in their capacities as such, and their successors and assigns.

23. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank.

24. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, or any other federal or state agency from taking any other action affecting PFHI, the Bank, or any of their current or former institution-affiliated parties and their successors and assigns.

25. Pursuant to Section 50 of the FDI Act (12 U.S.C. § 1831aa), this Agreement is enforceable by the Board of Governors under Section 8 of the FDI Act (12 U.S.C. § 1818).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 9th day of July, 2009.

PROFINIUM FINANCIAL HOLDINGS,  
INC.

FEDERAL RESERVE BANK  
OF MINNEAPOLIS

By: /s/ Fred C. Krahmer  
Fred C. Krahmer  
President

By: /s/ James Barnes  
James Barnes  
Vice President

PROFINIUM FINANCIAL, INC.

By: /s/ Fred C. Krahmer  
Fred C. Krahmer  
Chairman